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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**WATER DIVISION
Water Branch**

**RESOLUTION NO. W-4359
October 24, 2002**

R E S O L U T I O N

**(RES. W-4359), MEADOWBROOK WATER COMPANY (MWC).
ORDER AUTHORIZING AN INCREASE IN RATES PRODUCING AN
INCREASE IN ANNUAL REVENUES OF \$91,186 OR 32.1% FOR TEST
YEAR 2002.**

SUMMARY

By Draft Advice Letter, accepted on March 21, 2002, MWC seeks an increase in rates for water service to recover increased operating expenses and to provide an adequate rate of return on its capital investment. This resolution grants a general rate increase in gross annual revenues of \$91,186 or 32.1% for Test Year 2002. This increase will provide a 12.25% rate of return on rate base in the test year.

BACKGROUND

MWC requested authority under Section VI of General Order 96-A and Section 454 of the Public Utilities Code to increase rates for water service to produce additional revenues of \$105,193 or 37.4% in 2002. MWC's request shows 2002 gross revenue of \$281,539 at present rates increasing to \$386,732 at proposed rates to produce a rate of return on rate base of 12.5%. MWC serves approximately 1,151 flat rate, and 23 metered customers 1-1/2 miles northwest of the City of Merced, Merced County.

MWC's present rates became effective on April 12, 2002, pursuant to a \$2,500 increase in revenue to recover California Department of Health Services' user fees authorized by Commission Res. W-4013, dated December 20, 1996. The last general rate increase became effective on June 6, 1994, pursuant to Res. W-3850, which authorized a rate increase of \$15,930 or 8.3% for test year 1993 and a rate of return of 11.30%.

DISCUSSION

The Water Division (Division) made an independent analysis of MWC's summary of earnings and issued its report in July 2002. Appendix A shows MWC's and the Division's estimates of the summary of earnings at present, requested, and recommended rates. Appendix A also shows differences between MWC's and the Division's estimates in operating revenues and expenses.

MWC was informed of the Division's differing views of operating revenues and expenses and accepted the Division's estimates as shown in Appendix A.

MWC requested a rate of return of 12.5% for test year 2002. The Commission's Audit & Compliance (A&C) Branch recommends a range of rate of return of between 11.75% and 12.75% for Class C Water Utilities. Division recommends the midpoint of that range or 12.25%. In Decision (D.) 92-03-093 effective April 30, 1992, the Commission adopted the Operating-Ratio Method (ORM) of ratemaking as an alternate to the Return on Net-Investment (Ratebase) method for Class C and Class D Utilities and recommended that the Division use the method that produces the higher result. Accordingly, the Branch applied these two respective methodologies to MWC. Branch found that the return on investment calculation produced a revenue requirement of \$375,195 at the rate of return of 12.25%, the rate of return recommended by the A&C Branch. The ORM method using a rate of margin of 15% produced a revenue requirement of \$358,567, per D.92-03-093. Branch recommends the ratebase revenue requirement of \$375,195 to the Commission.

The utility's current rate structure consists of: Schedule No. 1, General Metered Service, Schedule No. 2R, Residential Flat Rate Service, and Schedule No. 4, Private Fire Protection Service. Branch recommends that the current rates in the flat rate schedule be increased by the system average increase of 32.1%. Metered rates are also increased by the system average increase, but more of an increase is being given to the service charges to bring them more into line with the allowance of up to 65% of fixed costs being recovered from service charges for Class C water utilities.

MWC's metered customers are generally non-residential and are very large water users. At the Branch's recommended rates shown in Appendix B, the bill for a typical monthly metered customer, using 28,700 cubic feet per month, would increase from \$155.90 to \$202.06, or 29.6%. A flat rate residential customer, on a 6,000 to 10,000 square foot lot, would experience an increase from \$ 17.04 to \$ 22.52 or 32.6% per month. A comparison of customer bills at present and recommended rates is shown in Appendix C. The adopted quantities and tax calculations are shown in Appendix D.

NOTICE AND PUBLIC MEETING

A notice of the proposed rate increase was mailed to each customer on April 16, 2002. The Branch received no responses protesting the rate increase. The Consumer Affairs Branch has received no complaints on MWC during the last four years.

A public meeting was held on Thursday, May 9, 2002. The Commission's representative explained Commission rate-setting procedures. The Utility's representatives explained the need for the rate increase. About ten customers attended the meeting and asked questions about energy costs and a new well which was recently drilled. The questions were answered to the customers' satisfaction.

Compliance

There are no outstanding Commission orders requiring system improvements.

The utility has been filing annual reports as required. MWC needs to update the Title Page; Rules 5, Special Information Required on Forms; 7, Deposits; and 10, Disputed Bills; Form 2, Customer's Deposit Receipt, and Form 3, Bill for Service.

The Branch recommends that the Commission authorize a rate increase of \$91,186 or 32.1%. This will increase estimated annual revenues from \$284,009 to \$375,195 at recommended rates as shown in Appendix A. This increase will produce a rate of return of 12.25%.

FINDINGS

1. The Branch's recommended summary of earnings (Appendix A) is reasonable and should be adopted.
2. The rates proposed by the Branch (Appendix B) are reasonable and should be adopted.
3. The quantities (Appendix D) used to develop the Branch's recommendations are reasonable and should be adopted.
4. MWC should be ordered to update the Title Page, Rules 5, 7, 10, and Forms 2 and 3 of the utility's tariff schedules.

5. The rate increase proposed by the Branch is justified and the resulting rates are just and reasonable.

THEREFORE IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code Section 454 for Meadowbrook Water Company, to file an advice letter incorporating the summary of earnings and the revised schedules attached to this resolution as Appendices A and B respectively, and concurrently cancel its presently effective rate schedules: Schedule No. 1, General Metered Service, and Schedule No. 2R, Residential Flat Rate Service. Its filing shall comply with General Order 96-A. The effective date of the revised schedule shall be five days after the date of its filing.
2. Meadowbrook Water Company is ordered to update the Title Page, Rules 5, 7, 10, and Forms 2 and 3 of the utility's tariff schedules.
3. This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on October 24, 2002; the following Commissioners voting favorably thereon:

WESLEY M. FRANKLIN
Executive Director

LORETTA M. LYNCH
President
HENRY M. DUQUE
CARL W. WOOD
GEOFFREY F. BROWN
MICHAEL R. PEEVEY
Commissioners

APPENDIX B
Sheet 1
MEADOWBROOK WATER COMPANY
Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered rate water service.

TERRITORY

The unincorporated area known as Meadowbrook Tract, including Nos. 1 and 2, located approximately 1-1/2 miles northwest of the city of Merced, Merced County.

RATES

Quantity Rate:

All water per 100 cu., ft., \$ 0.631 (I)

Per Meter

Service Charge:

Per Month

For 5/8 x 3/4-inch meter	\$ 13.58 (I)
For 3/4-inch meter	15.11
For 1-inch meter	20.39
For 1-1/2-inch meter	28.70
For 2-inch meter	37.02
For 3-inch meter	68.36
For 4-inch meter	92.90
For 6-inch meter	155.56 (I)

The Service Charge is a readiness-to-serve charge, which is applicable to all metered service and to which is added the charge for water computed at the Quantity Rates.

SPECIAL CONDITIONS

1. The established billing cycle for General Metered Service is every month.
2. All bills are subject to the reimbursement fee set forth on Schedule No. UF.
3. A late charge will be imposed as per Schedule No. LC.
4. In accordance with Section 2714 of the Public Utilities Code, if a tenant in a rental unit leaves owing the company, service to subsequent tenants in that unit will, at the company's option, be furnished on the account of the landlord or property owner.

(continued)

APPENDIX B
Sheet 2
MEADOWBROOK WATER COMPANY
Schedule No. 2R
RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all residential water service furnished on a flat rate basis.

TERRITORY

The unincorporated area known as the Meadowbrook Tract, including Nos. 1 and 2, located approximately 1-1/2 miles northwest of the City of Merced, Merced County.

RATES

	Per Service Connection <u>Per Month</u>
For a single-family residential unit, including premises having the following areas:	
6,000 sq. ft., or less	\$ 18.98 (I)
6,001 – 10,000 sq. ft.	22.52
10,001 – 15,000 sq. ft.	25.54
15,001 – 25,000 sq. ft.	29.63
25,001 – 43,559 sq. ft.	34.14
One acre or larger	40.27 (I)

For each additional single-family
residential unit on the same premises
and served by the same service connection 13.79 (I)

SPECIAL CONDITIONS

1. The above flat rate charges apply to service connections not larger than one-inch in diameter.
2. All service not covered by the above classifications will be furnished on a metered basis.

(continued)

APPENDIX C
Sheet 1
MEADOWBROOK WATER COMPANY

COMPARISON OF RATES

METERED SERVICE

Per Month Per Month

	Present	Proposed	Percent
	<u>Rates</u>	<u>Rates</u>	<u>Increase</u>
		<u>TY 01</u>	<u>Decrease)</u>
For 5/8 x 3/4-inch meter	\$ 8.26	\$ 13.58	64.4%
For 3/4-inch meter	9.19	15.11	64.4%
For 1-inch meter	12.40	20.39	64.4%
For 1-1/2-inch meter	17.46	28.70	64.4%
For 2-inch meter	22.52	37.02	64.4%
For 3-inch meter	41.58	68.36	64.4%
For 4-inch meter	56.51	92.90	64.4%
For 6-inch meter	94.62	155.56	64.4%

Quantity Rates:

All water, per 100 cu.ft.	\$ 0.50	\$ 0.631	26.2%
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For a 1-inch Meter

	Present	Proposed	Increase
<u>Usage</u>	<u>Rates</u>	<u>Rates</u>	<u>Percentage</u>
0	\$ 12.40	\$ 20.39	64.4%
50	37.40	52.04	39.1%
100	62.40	83.69	34.1%
287 (Avg.)	155.90	202.06	29.6%
300	162.40	210.29	29.5%

APPENDIX C
Sheet 2

MEADOWBROOK WATER COMPANY

COMPARISON OF RATES

FLAT RATE SERVICE

Per Service Connection Per Month

	Present <u>Rates</u>	Proposed Rates <u>TY 01</u>	Percent <u>Increase</u>
For a single-family residential unit, including premises having the the following areas:			
6,000 sq. ft., or less	\$ 14.36	\$ 18.98	32.2%
6,001 – 10,000 sq. ft.	17.04	22.52	32.2%
10,001 – 15,000 sq. ft.	19.32	25.54	32.2%
15,001 – 25,000 sq.ft.	22.42	29.63	32.2%
25,001 – 43,559 sq. ft.	25.83	34.14	32.2%
One acre or larger.	30.47	40.27	32.2%
For each additional single-family residential unit on the same premises and served by the same service connection	10.43	13.79	32.2%

APPENDIX D

Sheet 1

MEADOWBROOK WATER COMPANY

ADOPTED QUANTITIES

Test Year 2001

Offset Items

1. Purchased Power

Total Cost of Purchased Power	\$ 69,178
Total kWh used	432,068
Total \$ per kWh	\$0.160109/kWh

2. Ad Valorem Taxes

\$14,112

Total Value of Plant

\$1,370,084

Service Connections

1. Meter Size

5/8 X 3/4-inch	0
3/4-inch	1
1-inch	12
1-1/2-inch	0
2-inch	7
3-inch	1
4-inch	3
6-inch	<u>0</u>

Total

24

Consumption (Ccf)

82,716

Flat Rate	No. of <u>Customers</u>
6,000 sq.ft. or less	248
6,001 to 10,000 sq.ft.	811
10,001 to 15,000 sq.ft.	50
15,001 to 25,000 sq.ft.	19
25,001 to 43,559 sq.ft.	6
1 Acre or larger	17
Additional Residence – Same premises	<u>18</u>
Total Flat Rate Customers	1,169

APPENDIX D

Sheet 2

MEADOWBROOK WATER COMPANY

ADOPTED TAX CALCULATIONS

Test Year 2001

1.	Operating Revenues	\$375,195
2.	Expenses	50,000
3.	Depreciation	24,630
4.	Taxes Other Than Income	23,304
5.	Taxable Income for State Tax	77,261
6.	State Tax @ 8.84%	6,830
7.	Taxable Income for FIT	70,431
8.	Fed Tax first 50,000 @ 15%	7,500
9.	next 50,000 @ 25%	5,108
10.	Subtotal Fed Tax	12,608

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